



Registrar

National Electric Power Regulatory Authority
Islamic Republic of Pakistan

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No. NEPRA/TRF-228/WAPDA (Hydro)-2013/7236-7238

June 27, 2014

Subject: Decision of the Authority in the matter of Motion for Leave for Review filed by Water & Power Development Authority against Authority's Determination of Bulk Supply Tariff for Financial Year 2013-14

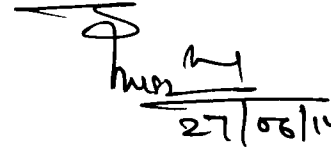
Dear Sir,

In continuation of this office letter No. NEPRA/TRF-228/WAPDA (Hydro)-2013/13899-13901 dated December 18, 2013 whereby Determination of the Authority in the matter of Tariff Petition filed by Water & Power Development Authority for approval of Bulk Supply Tariff for Financial Year 2013-14 was sent. Please find enclosed herewith the decision of the Authority (11 pages) in the matter of Motion for Leave for Review filed by Water & Power Development Authority on December 26, 2013 against NEPRA's decision dated 18.12.2013 in Case No. NEPRA/TRF-228/WAPDA (Hydro)-2013.

2. The Decision of the Authority is being intimated to the Federal Government for the purpose of notification in the official Gazette pursuant to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997) read with Rule 16(11) of the National Electric Power Regulatory Authority Tariff (Standards and Procedure) Rules, 1998.

3. Please be informed that Order of the Authority at paras 25-27 of the Decision will supersede the earlier Order of the Authority intimated vide para 75-77 of the Authority's Determination dated December 18, 2013. Please note that Order of the Authority at para 25-27 of the Decision needs to be notified in the official Gazette.

Enclosure: As above


27/06/14
(Syed Safer Hussain)

Secretary
Ministry of Water & Power,
'A' Block, Pak Secretariat
Islamabad.

CC:

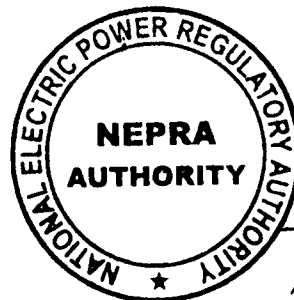
1. Secretary, Cabinet Division, Cabinet Secretariat, Islamabad.
2. Secretary, Ministry of Finance, 'Q' Block, Pak Secretariat, Islamabad.



**DECISION OF THE AUTHORITY IN THE MATTER OF MOTION FOR LEAVE
FOR REVIEW FILED BY WATER AND POWER DEVELOPMENT
AUTHORITY AGAINST AUTHORITY'S DETERMINATION OF BULK SUPPLY
TARIFF FOR FINANCIAL YEAR 2013-14**

BACKGROUND

1. Water and Power Development Authority (hereinafter referred to as the "petitioner") filed a tariff petition under rule 3 of the National Electric Power Regulatory Authority (Tariff Standards and Procedures) Rules, 1998 (hereinafter referred to as the "tariff rules") for determination of bulk supply tariff for the financial year 2013-2014 in respect of its hydropower plants.
2. The National Electric Power Regulatory Authority (hereinafter referred to as the "Authority") issued its determination (hereinafter referred to as the "determination") in the matter of aforesaid tariff petition on December 18, 2013.
3. Being aggrieved with the determination, the petitioner submitted a motion for leave for review (hereinafter referred to as the "review motion") on December 26, 2013 under rule 16 (6) of the tariff rules.
4. In the review motion, the petitioner has sought review of the determination in respect of the following:-
 - i) O&M expenses
 - a. Employees' pay, allowances and benefits
 - b. Staff retirement benefits
 - c. Repair & maintenance
 - d. Administrative expenses
 - ii) Regulatory assets base and return on assets
 - iii) Other income





PROCEEDINGS

5. In accordance with rule 16 (7) of the tariff rules, the Authority considered it just and appropriate to provide an opportunity of hearing to parties to the proceedings. The Authority accordingly gave directions for service of notices to the petitioner and other concerned parties for attending the hearing. The hearing in this regard was held at NEPRA Office, Islamabad on January 23, 2014 which was attended by the petitioner, representatives of Central Power Purchasing Agency, Lahore Chamber of Commerce and Industry, Ministry of Water and Power and other stakeholders. The representative of Lahore Chamber of Commerce and Industry opposed the grant of reliefs sought by the petitioner in the review motion.
6. Having heard the contentions raised during the course of hearing and after going through the relevant record, the findings of the Authority on the issues agitated by the petitioner are as under:-

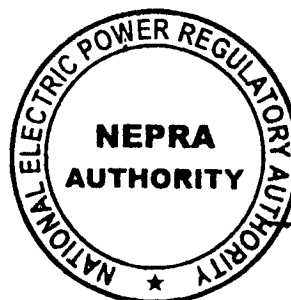
O&M expenses

Employees pay, allowances and benefits

7. The petitioner has argued that the Authority has determined cost of employee's salaries and benefits of Rs. 2,376 million for financial year 2012-13 as against Rs 2,799 million actually incurred as per audited annual accounts and has not considered the impact of increases made by the Government of Pakistan in the pay & allowances during financial year 2012-13.
8. The Authority has considered the issue and has observed that the impact of increases made by the Government of Pakistan in the pay & allowances, manpower requirement to cater for retiring employees and also to support the incoming power stations has already been considered in the determination. The Authority therefore maintains its earlier decision on this subject.

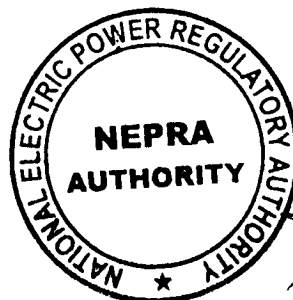
Staff retirement benefits

9. The petitioner has objected that:





- The Authority has allowed staff retirement benefits of Rs 1,950 million for financial year 2012-13 and same amount has also been allowed for financial year 2013-14, without giving effect of increase in the pension.
 - In the tariff petitions filed for financial year 2011-2012 and financial year 2013-14, the Authority was requested to allow revenue for making contribution for staff retirement benefits based upon the actuarial valuation. However, the Authority has allowed revenue only up to the extent of actual contribution/payment of staff retirement benefits. Further, the unbundled entities are disputing the payment liability of post retirement benefits of the employees who retired from said formations before the unbundling dates of WAPDA power wing, whereas there is no dispute over WAPDA's contribution under IAS 19 for retirement benefits of active employees serving the petitioner. Moreover, although report of Nauman Associates, consulting actuaries also includes members of non-core business/ allied departments, however, cost of retirement benefits of allied departments/ non-core business has not been claimed in the hydel power sales tariff.
10. The Authority has observed that the allowed staff retirement benefits are provisional estimates and are required to be adjusted on the basis of actual payment. However, authentic figure of staff retirement benefits actually paid for financial year 2013-14 is not yet available. The Authority has therefore decided that adjustment of staff retirement benefits, based on actual payment, will be allowed under the head of regulatory revenue gap while determining tariff of the petitioner for subsequent years.
11. The Authority has also observed that the issue of post-retirement benefits of employees after unbundling of WAPDA power wing remains unresolved. The Authority noted that, despite petitioner's claim to the contrary, liability of the petitioner, on account of staff retirement benefits, consequent to the resolution of these disputes might change. The Authority therefore maintains its earlier decision on this subject.





Repair & Maintenance

12. The petitioner has submitted details of repair and maintenance costs of Rs. 1,845 million claimed for the financial year 2011-12 and Rs. 2,528 million claimed for the financial year 2013-14. The petitioner has stated that, except for small amount of routine costs, repair & maintenance activities during each year are normally different from the previous years. The petitioner has requested to allow adequate revenue to finance the repair and maintenance activities to ensure safety, reliability and availability of the hydel power stations, particularly for outlived Tarbela and Mangla power stations.
13. The total repair and maintenance costs allowed by the Authority were as follows:

	Financial year		
	2011-12	2012-13	2013-14
Rupees in million	<u>1,200</u>	<u>1,672</u>	<u>1,379</u>

The Authority has considered the submissions of the petitioner and after due consideration has decided to maintain its decision regarding repair and maintenance costs for the financial year 2011-12.

14. The Authority has also considered details of repair and maintenance costs submitted by the petitioner for the financial year 2013-14. Keeping in view the nature of these claimed costs, the Authority has decided to allow them. The repair and maintenance costs allowed for the financial year 2013-14 will be adjusted on the basis of actual costs, not exceeding Rs. 2,528 million claimed by the petitioner. For adjustment of repair and maintenance costs, for the financial year 2013-14, on the basis of actual costs and for all future claims the petitioner is directed to include complete plant wise details of repair and maintenance costs claimed, plant wise history of actual repair and maintenance costs for the preceding five years, along with copies of internal approvals and details of internal procedures followed for approval of its repair and maintenance costs, along with the tariff petition.



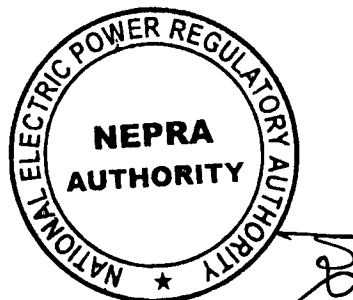


Administrative expenses

15. The petitioner has contended that the Authority has not applied inflation factors, relevant to nature of expenses covered under this head. The Authority has observed that overall annual escalation of 10% was allowed to the petitioner under this head. Keeping in view the nature of these expenses, the Authority does not see any reason to revise its earlier assessment. The Authority therefore maintains its earlier decision on this subject.

Regulatory assets base and return on assets

16. The petitioner has requested that capital cost of Diamer Bhasha power project may be allowed to it, and has submitted that capital cost already incurred on Diamer Bhasha power project is financed through subordinated loans given by the Government of Pakistan and the petitioner is serving the same at the prescribed terms and conditions. The disallowance of capital cost of Diamer Bhasha power project for allowing return on assets will put the petitioner in a difficult position to service the loans taken to finance the capital cost already incurred.
17. The Authority has observed that subsequent to the determination, the petitioner has filed an application for licensee proposed modification, requesting for inclusion of Diamer Bhasha power project in its generation license. The Authority after due processing of the same application, has decided in principle to approve the licensee proposed modification to the extent of Diamer Bhasha power project. In view of this decision, the Authority has also decided to allow cost of Diamer Bhasha power project to the petitioner.
18. The actual capital cost incurred up to June 30, 2013, and Rs. 5,000 million for the financial year 2013-14 is therefore allowed to the petitioner. Since all long term debts of the petitioner have already been considered by the Authority in the determination, therefore this capital cost is considered to be financed entirely from equity. The capital cost allowed to the petitioner along with return on investment for Diamer Bhasha power project is as follows:



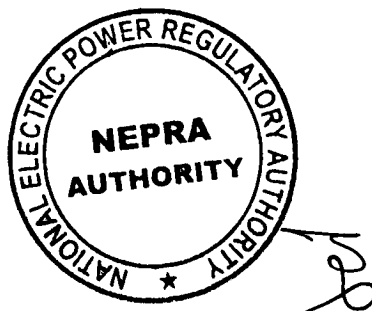


	2011-12	2012-13	2013-14
	Rupees in millions		
Opening balance	6,432	13,175	13,766
Additions during the year	6,743	591	5,000
Closing balance	13,175	13,766	18,766
Average regulatory assets base - Diamer Bhasha power project	9,803	13,470	16,266
Financing cost	17%	17%	17%
Return on investment	1,667	2,290	2,765

Other income

19. The petitioner has submitted that:

- Investments in non-hydel assets has never been included in the working of regulatory assets base by the Authority, therefore deduction of return thereon from its revenue requirement is against the logic.
- Capital investment in subsidiaries and associated companies is not regulated under generation license issued by the Authority, therefore income derived from such investments cannot be deducted from its annual revenue requirement.
- Capital investment in most of the subsidiaries and associate companies were made even before creation of the Authority. Capital investment in Kot Addu Power Company Limited has been made from own sources up to 1995 i.e. before creation of the Authority.

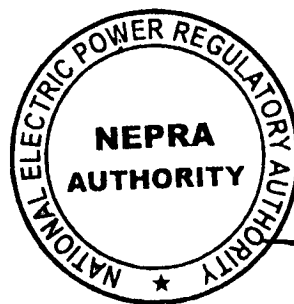




- In the absence of any margin allowed for meeting financing cost of working capital in the O & M expenses, the deduction of income derived from bank balances and investments does not have any logic.

20. The Authority has noted that:

- WAPDA power wing holds equity investments in Neelum Jhelum Hydro Power Company Limited, Kot Addu Power Company, XWAPDA Discos, Gencos, etc. and it is earning dividend income from some of its investments.
- It has been held by the Authority in the past that non-deduction of income, earned from activities not directly related to hydro operations, from the petitioner's revenue requirement is neither justified nor in the interest of consumers.
- According to the financial statements (other business) of WAPDA power wing for the year ended June 30, 2012, value of long term investments, investments in associates and subsidiaries aggregated Rs. 189,833.162 million. No return on these investments has been allowed by the Authority.
- It is for the first time that the petitioner has filed a review motion on this ground.
- The petitioner previously did not segregate between regulated and non-regulated businesses in its financial statements. Financial statements for the year ended June 30, 2012 disclose that the petitioner decided to segregate the operation and development of hydel activities (regulated) from non-core activities (non-regulated). Aforementioned financial statements of the petitioner elaborate that the regulated business comprises of activities purely from the hydel activities (generation and development of hydel electricity) and non regulated business include services from GM Training, Chief Resident





Representative Karachi, investing and treasury functions.

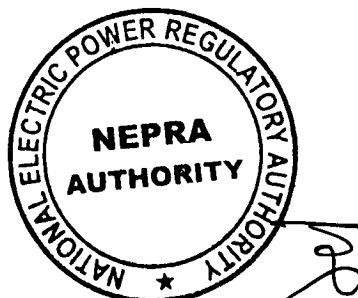
21. The Authority has considered the arguments of the petitioner regarding non-deduction of a portion of its other income, included in the financial statements of its regulated business. The Authority does not consider arguments of the petitioner to be valid and therefore maintains its earlier decision on this subject.

22. The Authority has also deliberated on the issue of deduction of other income, included in the financial statements of non-regulated business of the petitioner, in detail and has observed that subsequent to segregation of financial statements of regulated and non-regulated businesses by the petitioner, deducting other income from non-regulated business from revenue requirement of the petitioner no longer remains justified. Accordingly the Authority has decided not to deduct other income from non-regulated businesses from revenue requirement of the petitioner, with effect from the year ended June 30, 2012 i.e. subsequent to segregation of financial statements of regulated and non-regulated businesses by the petitioner. The petitioner is directed to ensure that this additional revenue is utilized by it solely for future hydro development activities. The revised assessment of other income of the petitioner is as follows:

	2011-12	2012-13	2013-14
Other income	<u>1,462</u>	<u>1,049</u>	<u>1,049</u>

Rupees in million

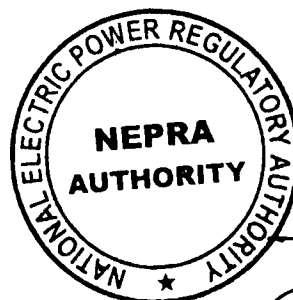
23. In view of discussions in the preceding paragraphs, the total revised revenue requirement of the petitioner approved for the financial year 2013-14 is as follows:





	Financial Year 2013-14	
	Determined earlier	Final approved through this decision
	Rupees in millions	Rupees in millions
Operations and maintenance costs	7,442	8,591
Depreciation	5,182	5,182
Ijara rental	1,506	1,506
Net hydro profit	6,000	6,000
Water usage charges	742	742
IRSA charges	159	159
Return on investment	31,269	34,034
Other income	(4,115)	(1,049)
	48,185	55,165
Regulatory revenue gaps		
Financial year 2011-12	6,952	11,753
Financial year 2012-13	1,845	7,201
	8,797	18,954
Total	56,982	74,119

24. On the basis of installed capacity available for dispatch, the following tariff has been approved for the petitioner:





Tariff	Fixed charge Rs./kW/Month	Variable charge Paisa/kwh.
Regular tariff	632.7887	8.6869
Recovery of revenue gap	217.4182	2.9847
Total tariff	850.2069	11.6715

Order

25. Subject to adjustment on account of determination of net hydro profits by CCI, Water and Power Development Authority (petitioner) is allowed to charge the Central Power Purchasing Agency (CPPA) within the National Transmission and Despatch Company (NTDC) the following two part tariff, for sale of bulk power measured at the bus bar of its hydroelectric power stations connected directly or indirectly to the transmission system of NTDC.

Fixed charge: Rs. 850.2069 per kW per month of installed capacity

And

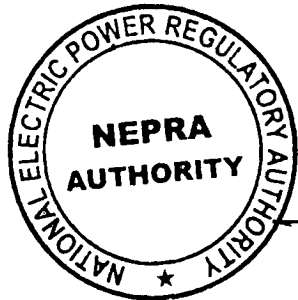
Variable charge = Ps. 11.6715 per kWh delivered.

26. The above tariff is applicable for a period of one year from February 27, 2014, after which the following tariff will be applicable:

Fixed charge: Rs. 632.7887 per kW per month of installed capacity

And

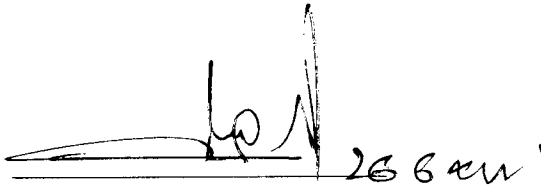
Variable charge = Ps. 8.6869 per kWh delivered.




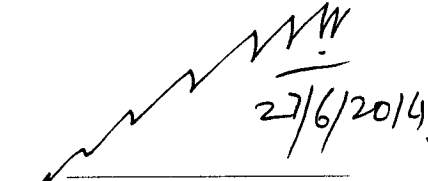


27. Any over/under recovery of cost/revenue requirement due to factors beyond control of the petitioner will be adjusted, after due consideration by the Authority, at the time of next tariff determination.
28. The order from paragraphs 25 to 27 is to be intimated to the Federal Government for notification in the official gazette under section 31 (4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997.

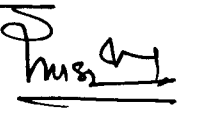
AUTHORITY


(Khawaja Muhammad Naeem)
Member


(Maj. (R) Haroon Rashid)
Member


(Habibullah Khilji)
Vice Chairman




27.06.14